MULTIMEDIA UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

# FINAL EXAMINATION

**TRIMESTER 3, 2016/2017**

## BEI2114 – INTERNATIONAL ECONOMICS

(All Section/Group)

26 MAY 2017
3.00 p.m. - 5.00 p.m.
(2 Hours)

**INSTRUCTIONS TO STUDENTS**

1. This Question paper consists of **FOUR** pages with **TWO** sections only.
   Section A – Fifteen (15) Multiple Choice Questions
   Section B – Three (3) Structured Questions

2. Attempt **ALL** questions in both **Sections A and B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

## SECTION A: MULTIPLE CHOICE QUESTIONS (25 MARKS)

1. Financial capital flows could include
   A) real estate purchases.
   B) construction of factories.
   C) sales of a business.
   D) currency market transactions.

2. A free trade agreement plus a common set of tariffs toward non-members is called
   A) a common market.
   B) a customs union.
   C) a free trade area.
   D) an economic union.

3. Which of the following is a problem that arises when trying to classify regional trade agreements?
   A) Many agreements combine elements from different categories.
   B) The definition of free trade area includes that of a customs union.
   C) Some agreements include cultural issues while others do not.
   D) The most favored nation clause includes all of them.

4. If one nation is able to produce a good at a lower opportunity cost than another, it has
   A) an absolute advantage in that good.
   B) a comparative advantage in that good.
   C) a productivity advantage in that good.
   D) a technological advantage in that good.

5. When economists talk about the gains from trade, they mean that
   A) no one ever gets hurt by trade.
   B) the benefits of trade outweigh the losses.
   C) business firms benefit from trade but not necessarily individuals.
   D) trade increases government revenue through taxes on imports.

6. A production possibilities curve that is bowed out represents the case of
   A) constant costs.
   B) increasing costs.
   C) decreasing costs.
   D) internal costs.

7. In a small country, the net national cost of tariff protection is equal to the reduction in consumer surplus minus
   A) the gain to foreigners.
   B) the increase in government revenue and the increase in producer surplus.
   C) the increase in government revenue.
   D) the increase in producer surplus.

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8. One reason why consumers are unlikely to be too upset about tariffs is because
   A) most consumers benefit from protection.
   B) tariffs are an inexpensive way to create jobs.
   C) consumer losses are not real losses.
   D) the costs are so spread out that no one pays a big share of the total.

9. Low labour standards are usually associated with
   A) nondemocratic governments.
   B) high-income countries.
   C) high-wage countries.
   D) low foreign investment.

10. A current account deficit implies that
   A) the financial account is negative.
   B) the financial account is in surplus.
   C) exports of goods and services exceed imports of goods and services.
   D) unilateral transfers are positive.

11. An increase in the U.S. demand for the Mexican peso
   A) causes an increase in the U.S. dollar price of a Mexican peso.
   B) causes the Mexican peso to appreciate.
   C) causes the U.S. dollar to depreciate.
   D) All of the above.

12. According to purchasing power parity, which of the following is FALSE about an overvalued dollar compared to the Japanese yen?
   A) U.S. merchants would be motivated to import more Japanese goods.
   B) Japanese merchants would tend to export more to the United States.
   C) Prices in the United States would tend to fall.
   D) Over the long term, the exchange rate would fall.

13. Which of the following is NOT one of the determinants of the gains of adopting a single currency?
   A) A well-synchronized business cycle involving all member countries
   B) The possibility of factors of production to freely move across borders
   C) The willingness and ability of member countries to design policies to address regional imbalances that may develop
   D) Widening the common market by allowing other countries to join

14. A flexible exchange rate system crisis involves
   A) a revaluation of the currency.
   B) a rapid and uncontrolled depreciation of the currency.
   C) a decrease in the dollar value of the country's international debt.
   D) a sure political collapse of the ruling government.

**Continued...**

15. One economic advantage of a large share of exports in GDP is that countries
    A) can reduce their budget deficits.
    B) can purchase the imports they need.
    C) can maintain lower rates of unemployment.
    D) will have greater equality in their incomes.

## SECTION B: STRUCTURED QUESTIONS (75 MARKS)

## QUESTION 1

(a) Answer the following questions based on **Table 1**:

**Table 1**

| Country | Output per Worker per day | |
|---|---|---|
| | Steel (tons) | Television (units) |
| South Korea | 80 | 40 |
| China | 20 | 20 |

(i) What is the opportunity cost of one unit of television in China? (2 marks)

(ii) What is the opportunity cost of one unit of television in South Korea? (2 marks)

(iii) With international trade, what would be the maximum amount of steel that South Korea would be willing to export to China in exchange for each television? (2 marks)

(iv) With international trade, what would be the maximum number of television that China would be willing to export to South Korea in exchange for each ton of steel? (2 marks)

(b) Assume Australia is land abundant and India is labour abundant. Explain which country should specialize in producing wheat and textiles respectively. What is the effect on the factor prices in both countries after engaging in international trade? (5 marks)

(c) Distinguish between consumer surplus and producer surplus. How do these concepts relate to a country's economic welfare? (6 marks)

(d) How does the revenue effect of an import quota differ from that of a tariff? (6 marks)

**(Total: 25 marks)**

**Continued...**

## QUESTION 2

(a) Provide **TWO (2)** reasons for the decline in the import-substituting industrialization strategy that favours trade openness. (9 marks)

(b) Discuss the **FOUR (4)** lists of trade liberalization among the member countries of ASEAN free trade area (AFTA). (16 marks)

**(Total: 25 marks)**

## QUESTION 3

(a) Discuss any **TWO (2)** advantages and any **TWO (2)** disadvantages faced by Malaysian when Ringgit Malaysia (RM) depreciated. (10 marks)

(b) Draw the demand for and supply of the U.S. dollar in each of the following cases. Make sure to properly label the axes. Explain in words the effect of each of the following events in the short run. In each case, assume the two countries under consideration are important trading partners.

(i) There is an increase in the real interest rates in the United States relative to Japan. (3 marks)

(ii) Investment returns in the United States decrease relative to expected returns in Japan. (3 marks)

(iii) Inflation in Japan fell relative to the inflation rate in the United States. (3 marks)

(iv) The Japanese expect the value of the U.S. dollar to decline. (3 marks)

(v) The Federal Reserve raised interest rates fearing the inflationary pressures of a booming U.S. economy. (3 marks)

**(Total: 25 marks)**

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